

Chief, S/TF + D/A

20 June 1955

Chief, D/T

OWEP Drafting Group on Economic Defense Policy Review, Staff Studies #8, "Differentials Between U.S. and Multilaterals Controls", and #19, "Note on the Balance of Payments of the European Soviet Bloc with the Free World"

Attached are copies of subject reports which were received on June 20, 1955 at 2:30 P.M. for coordination in ORR. As a matter of interest, did your branch participate in Staff Study #19?

The Dodge Council Drafting Group is scheduled to meet in almost continuous session to review the Staff Studies as rapidly as they become available.

In order to be useful, review by your Branch should be made almost immediately.

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Comments may be sent or telephoned to [REDACTED] Room 203 Central Building, extension 2845, as soon as possible.

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D/E/RR:DJ:jms (20 June 55)

Distribution:

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- Staff Study #8
- Staff Study #19

*(Revisions also sent
to S/TF + D/A on
29 June 55)*

STANDARD FORM NO. 64

Office Memorandum • UNITED STATES GOVERNMENT

TO : Chief, D/E

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DATE: 23 June 1955

THRU : Chief, D/S

FROM : Chief, S/TF-*W5m*

#19

SUBJECT: Requested Comments on Staff Study #19 "Note on the Balance of Payments of the European Soviet Bloc with the Free World"

1. Staff Study #19 consisting of notes and a balance of payments table was based on a draft version of EIC-P-5. Some of the data in EIC-P-5 have been revised and the approved version, the short-title of which is EIC-R-11, will appear in print within a few weeks. We reviewed Staff Study #19 and drew up a list and a revised table reflecting the changes in data. These changes appear as attachment A to this memorandum.

2. In addition to these changes we suggest that consideration be given to the following substantive points:

a. On page 2, paragraph 1, line 8, the following statement is made: "In 1954 this deficit almost certainly increased". Recorded trade data indicate that 1954 European Soviet Bloc exports C.I.F. Free World ports amounted to \$1,440 million and imports F.O.B. Free World ports amounted to \$1,485 million. When exports are adjusted to F.O.B. values the Bloc trade deficit is in excess of \$185 million. The Bloc certainly incurred a deficit on shipping in 1954. The deficit on trade and shipping in 1954 can be characterized as substantial relative to the deficit incurred in the 1950-1953 period. We suggest that line 8 be changed to read "Tentative analysis of data indicates a substantial increase in the trade and shipping deficit in 1954".

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b. On page 2, paragraph 3, line 1 the following statement appears: "Sales of gold to the Free World, mainly by the USSR, account for roughly \$100 million annually in 1949-1952, ____". A reexamination of available intelligence on Bloc gold sales indicates that the gold sales in 1950-1952 were made by the European Satellites; data for 1949 do not permit a firm conclusion although if sales of \$100 million took place they were probably made by the Satellites; and the sales in 1953 and 1954 were made by the USSR. It is, therefore, suggested that line 1 and line 2 of this paragraph be changed to read as follows: Sales of gold to the Free World, mainly by the European Satellites, account for roughly \$100 million annually in 1949-1952. In 1953 the USSR's gold sales amounted to \$150 million. It is estimated that the USSR sold approximately \$125 million of gold in 1954.

c. Beginning on page 2 and continuing on page 3 the following parenthetical statement is made: "These figures are estimates with perhaps the largest margin of error of any of the figures presented in Table 1." This statement refers to the gold sales estimate. This estimate was the only estimate for which it was possible to obtain a margin of error. It is believed that a greater percentage margin of error may exist in some of the other estimates and perhaps a greater absolute margin of error may exist in the import and export figures. It is suggested that the parenthetical statement be deleted.

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d. On page 3, paragraph 1, line 2, the following statement is made: "As capital transfers decreased in 1953 sales of gold increased, but not by as large an amount". This statement is somewhat ambiguous. It is assumed that the implied comparison is between the year 1948 and 1953. A clarified version of this occurrence would be as follows: "As net capital transfers dwindled to insignificance in 1953 compared to earlier years of the period they were replaced by increasing gold sales."

e. It is suggested that the following sentences be added to paragraph 2, page 4. "Another conclusion which could be drawn from these figures is that in the absence of ~~capital imports~~ *long-term credits*, bloc import surpluses can be maintained and financed only by the sale of gold."

f. It is suggested that the final paragraph, beginning on page 4 and extending to page 5 be deleted for the following reasons: It is known that the USSR loaned Czechoslovakia in 1948, 1949 and 1950 gold and Free World currencies. Similar loans were made in the period to East Germany.

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ATTACHMENT A

1. Page 1, par. 2, line 6, read "EIC-R-11" instead of "EIC-P-5".
2. Page 2, par. 1, line 4 read "the bloc's deficit on shipping account is estimated at \$20 to \$50 million" instead of "the bloc's deficit on shipping account is estimated at \$25 to \$50 million."
3. Page 2, par 1, line 7 read "and \$60-80 million in 1951-1953" instead of "\$70-90 million."
4. Page 6, Table 1, use the attached table instead of the one in the staff study.

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Table 1

BALANCE OF PAYMENTS OF THE EUROPEAN SOVIET BLOC WITH THE FREE WORLD
1948 - 1953
(In millions of U.S. dollars) a/

	<u>1948</u>	<u>1949</u>	<u>1950</u>	<u>1951</u>	<u>1952</u>	<u>1953</u>
Exports, F.O.B. (Bloc Ports)	1,392	1,302	1,075	1,197	1,099	1,058
Imports, F.O.B. (Free World Ports)	-1,480	-1,445	-1,081	-1,239	-1,136	-1,102
Balance of Trade	-88	-143	-6	-42	-37	-44
Shipping Receipts	51	40	35	50	40	34
Shipping Payments	-104	-86	-65	-90	-62	-58
Balance of Shipping	-53	-46	-30	-40	-22	-24
Balance of Trade and Shipping	-141	-189	-36	-82	-59	-68
Capital Movements and Transfers (Net)						
Finnish Reparations and Payments for former German Assets	96	77	35	54	36	0
Swedish Deliveries under 1946 Loan Agreement	16	13	15	29	33	2
Private Remittances from the United States	51	29	15	18	14	17
Czech Drawing on the International Monetary Fund	6					
Compensation Payments for Nationalized Properties			-16	-19	-13	-12
Polish Repayment of 1945 Swedish Loan	-2	-5	-3	-3	-3	-3
Balance of Capital Movements and Transfers	167	114	46	79	67	4
Changes in Gold and Foreign Exchange Holdings						
Changes in U.S. dollar balances	52	11	6	7	1	1
Changes in Continental European Balances	-46	12	19	18	26	12
Changes in Other Balances	17 b/		-17 b/		-10	1
Changes in U.S. Currency Holdings	0	1	97	100	-1	10
Sales of Gold	23	100 c/	105	125	86	147
Net change in Gold and Foreign Exchange Holdings	-49	-49	-115	-122	-110	-107
Errors and Omissions						

STEMS: Minus (-) indicates an outflow of funds; no sign, which is in effect a plus sign, indicates a source of funds. In the case of gold and foreign exchange holdings, no sign indicates sales of gold by the Bloc, a reduction in foreign assets, or an increase in liabilities to foreign countries; a minus sign indicates the opposite in each case.

- a. Data for the most part were converted from original currency units to US dollar equivalents on the basis of rates published by the International Monetary Fund. Where these were not available, rates based on information from the countries involved were used.
- b. Argentina had a commercial surplus of \$17 million with Rumania in 1948. This Rumanian debt was repaid by a gold sale.
- c. Data on the volume of gold sales in 1949 are tenuous.

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